

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 EURE-00 CIAE-00 PM-07 INR-11 L-03

ACDA-19 NSAE-00 PA-04 RSC-01 PRS-01 SP-03 USIA-15

TRSE-00 SAJ-01 DODE-00 EB-11 COME-00 FRB-03 SS-20

NSC-07 CEA-02 CIEP-03 AGR-20 FEA-00 SWF-02 OMB-01

DRC-01 /161 W

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P 301415Z JUL 74

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TO SECSTATE WASHDC PRIORITY 6961

AMEMBASSY MOSCOW

CONFIDENTIAL SECTION 1 OF 2 USNATO 4145

E.O. 11652: GDS

TAGS: ECON, EFIN, UR, NATO

SUBJECT: ECONADS: ESTIMATE OF SOVIET BALANCE OF PAYMENTS IN CONVERTIBLE CURRENCIES

REF: USNATO 3866

1. BELOW IS THE TEXT OF A DRAFT SUMMARY REPORT OF THE FINDINGS WHICH EMERGED FROM THE JULY 11 ECONOMIC COMMITTEE MEETING WITH EXPERTS ON THE SOVIET BALANCE OF PAYMENTS. REPORT IS ON AGENDA OF ECONADS MEETING AUG 1 FOR APPROVAL. MISSION WOULD APPRECIATE ANY ADDITIONAL COMMENTS US HAS ON REPORT BY COB JULY 31 TOGETHER WITH DATA US REP AGREED DURING MEETING TO SUPPLY (REFTEL).

2. BEGIN TEXT.

AN ESTIMATE OF THE SOVIET BALANCE OF PAYMENTS IN
CONVERTIBLE CURRENCIES: PRINCIPAL FEATURES
AND IMPLICATIONS

DRAFT SUMMARY REPORT TO THE COUNCIL
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THE FOLLOWING POINTS STEM FROM THE MAIN FINDINGS OF A PANEL OF EXPERTS FROM CAPITALS OF ALLIANCE COUNTRIES WHO CONSIDERED THE SUBJECT OF THE SOVIET BALANCE OF PAYMENTS IN HARD CURRENCIES AT A REINFORCED MEETING OF THE ECONOMIC

COMMITTEE ON 11TH JULY.

2. THE SOVIET INTERNATIONAL FINANCIAL POSITION HAS BEEN
CONSIDERABLY REINFORCED BY THE RAPID RISES OF OIL AND COMMODITY
PRICES THAT HAVE DOUBLED THE VALUE OF SOVIET EXPORTS. THE
TROUBLE, HOWEVER, IS NOT EXPECTED TO ACHIEVE CONVERTIBILITY AS
A CONSEQUENCE, SINCE THIS WOULD IMPLY A FREEDOM OF EXCHANGE IN
CONTRADICTION WITH THE SOVIET STATE-TRADING SYSTEM. THE RECENT
SIGNIFICANT SHIFT IN THE INTERNATIONAL TERMS OF TRADE HAS
RELIEVED EAST-WEST TRADE OF A MAJOR CONSTRAINT (INSUFFICIENCY
OF SOVIET EXPORT EARNINGS) AND HAS ACCORDINGLY EXPANDED THE
SOVIET CAPACITY TO IMPORT WESTERN MACHINERY, MANUFACTURED GOODS
AND GRAIN, IMPORTANT TO SOVIET ECONOMIC GROWTH; AND HAS REDUCED
THE BURDEN OF SOVIET DEBT TO NATO AND OTHER INDUSTRIALISED
WESTERN COUNTRIES.

3. THE EXPERTS RECOGNISED THAT SOVIET FAILURE TO PUBLISH
COMPREHENSIVE PAYMENTS DATA HAS NOT ONLY COMPLICATED THE QUESTION
OF SOVIET ACCESS TO CERTAIN INTERNATIONAL ECONOMIC ORGANIZATIONS
BUT HAS ALSO OBSCURED INDIVIDUAL ITEMS IN THE BALANCE (E.G.
GOVERNMENT SERVICES, OTHER "INVISIBLES", SOME CAPITAL FLOWS).
THE EXPERTS CONCLUDED, HOWEVER, THAT IMPORTANT ELEMENTS ARE
SUFFICIENTLY CLEAR TO PERMIT AN ESTIMATE OF THE GENERAL STRUCTURE
OF THE SOVIET EXTERNAL BALANCE AND OF RECENT SIGNIFICANT CHANGES
IN IT. IN THIS CONNECTION, THE PERIODIC REPORTS OF THE ECONOMIC
COMMITTEE BASED ON NOTIFICATIONS OF CAPITALS CONCERNING SOVIET
DRAWINGS AND REPAYMENTS OF EXPORT CREDITS HAVE BEEN OF CONSIDERABLE
RELEVANCE AND ASSISTANCE.

4. RECENT DEVELOPMENTS. THE RECENT TURNABOUT IN SOVIET
EXTERNAL ECONOMIC FORTUNES IS REFLECTED IN KEY ELEMENTS OF THE
BALANCE OF PAYMENTS IN CONVERTIBLE CURRENCIES AS PROJECTED BY
THE EXPERTS:

(\$ MILLION)

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1972 1973 1974 (ESTIMATED)

EXPORTS PLUS 2,815 PLUS 4,805 PLUS 6,000 TO PLUS 8,000

IMPORTS - 4,175 - 6,525 - 5,500 TO -7,500

TRADE BLANCE - 1,360 - 1,720 PLUS 500

INVISIBLES (NET) (PROBABLY SMALL DEFICIT)(A)

GOLD SALES PLUS 300 PLUS 965 PLUS 900(B)

(A) GOVERNMENT SERVICES IN PARTICULAR AND INTEREST PAYMENTS ARE
BELIEVED TO HAVE BEEN NET DEFICITS

(B) AT AN ANNUAL RATE: SALES THROUGH JUNE HAVE TOTALLED ABOUT
\$450 MILLION

5. THE TRANSFORMATION OF THE LARGE TRADE DEFICIT OF 1972
INTO A SURPLUS IN 1974 REFLECTS THE POSSIBILITY THAT SOVIET
EXPORT PROCEEDS MAY RISE MORE THAN 100 PER CENT AS A CONSEQUENCE
PRINCIPALLY OF PRICE INCREASES, E.G. FOR OIL. SOVIET EXPORTS MAY ALSO
BE BOOSTED BY THE NEW CAPABILITY OF SOME MIDDLE EASTERN CLIENTS TO
PURCHASE SOVIET ARMS FOR HARD CURRENCY. SIMILARLY, PROCEEDS FROM
SOVIET SALES OF GOLD TRIPLED LAST YEAR MAINLY BECAUSE OF A RISE IN
PRICE AND HAVE SO FAR BEEN MAINTAINED AT ABOUT THIS RATE IN 1974.
IN VIEW OF THE CONSIDERABLE STRENGTH OF SOVIET EXTERNAL PAYMENTS,
THE EXPERTS FELT THAT THE PROCEEDS FROM GOLD EXPORTS IN 1973
EXCEEDED WHAT WAS REQUIRED TO ACHIEVE A BALANCE.

6. THIS IMPROVEMENT IN THE LIQUIDITY POSITION OF THE USSR
WAS ACCCOMPANIED BY A DOUBLING OF SOVIET IMPORTS FROM THE HARD-
CURRENCY AREA DURING 1972-1973. IMPORTS ARE EXPECTED TO REMAIN
AT A RELATIVELY HIGH LEVEL (AT LEAST \$5.5 BILLION) THIS YEAR,
THOUGH THE ASSORTMENT MAY SHIFT SOMEWHAT FROM GRAIN TO EQUIPMENT
AND TECHNOLOGY. NEW SOVIET ORDERS FOR WESTERN MACHINERY ARE
CURRENTLY WELL AHEAD OF THE RECORD-BREAKING 1973 LEVEL IN TERMS
OF ANNUAL RATES. THE SHARE OF NATO COUNTRIES IN SOVIET COMMERCE
IN HARD CURRENCIES REMAINS PROMINENT, ACCOUNTING FOR OVER THREE-
QUARTERS OF THE TRADE DEFICIT AND OVER TWO-THIRDS OF THE VALUE OF
GOODS EXCHANGED IN 1973.

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C O N F I D E N T I A L SECTION 2 OF 2 USNATO 4145

7. THE INCREASE IN EARNINGS OF SOVIET EXPORTS OF ENERGY AND MATERIALS HAS ALSO CONSIDERABLY RELIEVED THE DEBT BURDEN OF THE USSR. THE RATIO OF SOVIET DEBT SERVICE TO EXPORTS HAS REMAINED WELL BELOW 20 PER CENT - A PERCENTAGE CONSIDERED COMPATIBLE WITH CURRENT SOVIET FINANCIAL CAPABILITIES. THE ESCALATION OF GOLD PRICES IN THE PAST TWO YEARS HAS ALMOST QUADRUPLED THE BOOK VALUE OF THE SOVIET GOLD STOCK (WHICH IS VARIOUSLY ESTIMATED BETWEEN 1,700 TO 2,000 TONS). AT THIR CURRENT VALUATION (WELL OVER \$8 BILLION), SOVIET GOLD RESERVES ARE MORE THAN DOUBLE THE ENTIRE SOVIET DEBT (UNDER \$4 BILLION) TO NATO AND OTHER INDUSTRIAL WESTERN COUNTRIES RESULTING FROM DRAWING ON WESTERN EXPORT CREDITS. SOVIET RESERVES MAY NOW BE EQUIVALENT TO THE VALUE OF 12-15 MONTHS OF SOVIET IMPORTS IN CONVERTIBLE CURRENCIES; THE CORRESPONDING RATIO IN WESTERN EUROPE IS ONLY 3 TO 7 MONTHS.

8. IN THE VIEW OF SOME EXPERTS, THE USSR MAY BECOME A SUBSTANTIAL NET LENDER THIS YEAR IN THE EURO-MARKET, UTILISING FOREIGN EXCHANGE ACCUMULATED IN 1972-1973. ALREADY IN EVIDENCE IS AN INCREASED SOVIET TENDENCY TO PAY CASH FOR EXPENSIVE PURCHASES OF WESTERN PLANT AND EQUIPMENT THAT HAD FORMERLY BEEN OBTAINED ALMOST EXCLUSIVELY UNDER LONG-TERM CREDITS.

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9. SOVIET BORROWING NEVERTHELESS CONTINED TO RISE LAST YEAR, PROBABLY EXCEEDING \$1.7 BILLION IN DRAWINGS ON GUARANTEED AND NON-GUARANTEED EXPORT CREDITS. THE USSR ALSO REPORTEDLY BORROWED FROM THE EURO-MARKET. THE APPARENT SOVIET WILLINGNESS TO GO ON ACCUMULATING DEBT OBLIGATIONS AT A TIME OF STRONG LIQUIDITY MIGHT REFLECT A HOPE TO PROFIT BY DIFFERENTIALS IN INTEREST RATES. MOSCOW MAY GLADLY PAY THE RELATIVELY LOW RATES OF WESTERN EXPORT CREDITS IN RETURN FOR THE OPPORTUNITY TO CHANNEL FOREIGN EXCHANGE INTO THE EURO-MARKET FOR REPAYMENTS AND CONCEIVABLY ALSO FOR PURPOSES OF SHORT-TERM INVESTMENT AT HIGH RATES.

10. PROSPECTS. AFTER 1974, INCREASES IN THE VALUE OF SOVIET EXPORTS AND IMPORTS WILL PROBABLY SLOW DOWN TO A MORE MODERATE PACE UNLESS WORLD COMMODITY PRICES AGAIN RISE DRAMATICALLY. WHILE SUCH PRICE FLUCTUATIONS REMAIN UNPREDICTABLE, SOVIET EXPORT PROSPECTS ARE FAVOURABLE SINCE THE USSR IS A MAJOR REPOSITORY OF MINERALS IN AN ERA OF CONSIDERABLE UNCERTAINTY OR SCARCITY. MOREOVER, IN 1975 GOLD SALES MAY RISE AS HIGH AS \$1,300 MILLION (AN INCREASE OF ABOUT \$400 MILLION) AT CURRENT PRICES; THE TONNAGE PRODUCED AND SOLD ABROAD BY THE USSR IS EXPECTED TO GROW IN VOLUME IN RESPONSE TO PAST INCREASES IN GOLD PRICES, WHICH ARE NOW BELIEVED TO EXCEED PRODUCTION COSTS IN THE USSR. MOREOVER, REPAYMENTS BY DEVELOPING COUNTRIES OF PAST SOVIET CREDITS COVERING MILITARY AID ARE EXPECTED TO RISE TO APPROXIMATELY \$600-750 MILLION IN HARD CURRENCIES IN 1975 FROM AN ESTIMATED \$250 MILLION IN 1973. THE EXPERTS NEVERTHELESS BELIEVED THAT THE USSR WOULD CONTINUE TO BE INTERESTED IN

WESTERN EXPORT CREDITS, ESPECIALLY THOSE ASSOCIATED WITH LARGE-SCALE, SELF-LIQUIDATING DEVELOPMENT PROJECTS WHERE REPAYMENT CAN BE MADE WITH GOODS.

11. IF - AS SEEKS LIKELY - WORLD PRICES OF THE PRINCIPAL EXPORTS OF THE USSR REMAIN HIGH, THE RESULTANT STRENGTHENING OF ITS RESERVES AND LIQUIDITY WILL SUSTAIN A WIDE SOVIET FREEDOM OF MANOEUVRE IN THE DIRECTION OF BOTH CONCESSION AND PRESSURE VIS-A-VIS EASTERN EUROPE AS WELL AS ITS WESTERN TRADING PARTNERS.

12. THE EXPERTS AGREED TO TRANSMIT, AT A LATER TIME, ADDITIONAL DATA THAT MIGHT FACILITATE MORE PRECISE ESTIMATES OF CONFIDENTIAL

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CAPITAL FLOWS IN THE SOVIET BALANCE OF PAYMENTS IN CONVERTIBLE CURRENCIES.

END TEXT.

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Message Attributes

Automatic Decaptoning: X
Capture Date: 11 JUN 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 30 JUL 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ATO04145
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Film Number: n/a
From: NATO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740788/abryw/jw.tel
Line Count: 238
Locator: TEXT ON-LINE
Office: n/a
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: USNATO 3866
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 10 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10 APR 2002 by boyleja>; APPROVED <20-Sep-2002 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONADS: ESTIMATE OF SOVIET BALANCE OF PAYMENTS IN CONVERTIBLE CURRENCIES
TAGS: ECON, EFIN, UR, NATO
To: STATE
MOSCOW
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005